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HEALTHCARE SYSTEMS, INC.

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

MEDSQUIRE, LLC

Plaintiff,

vs.

QUEST DIAGNOSTICS, INC.;
NEXTGEN HEALTHCARE
INFORMATION SYSTEMS, INC.;
HENRY SCHEIN MEDICAL SYSTEMS,
INC.; HEWLETT-PACKARD
COMPANY; APRIMA MEDICAL
SOFTWARE, INC.;
eCLINICALWORKS, LLC; MED3000,
INC.; PULSE SYSTEMS, INC.;
COMPULINK BUSINESS SYSTEMS,
INC.; NAVINET, INC.; athenaHEALTH,
INC.

Defendants.

eCLINICALWORKS, LLC;

Counterclaimant,

vs.

MEDSQUIRE, LLC;

Counterdefendant.

Case No. CV11-4504-JHN (PLAx)

**DEFENDANTS' NOTICE OF
MOTION AND JOINT MOTION TO
DISMISS ALL BUT ONE
DEFENDANT FOR MISJOINDER
UNDER FEDERAL RULE OF CIVIL
PROCEDURE 20**

HEARING:

Date: December 5, 2011

Time: 2:00 p.m.

Courtroom: 790

Judge: Hon. Jacqueline H. Nguyen

TO PLAINTIFF AND THEIR ATTORNEY OF RECORD

PLEASE TAKE NOTICE THAT on December 5, 2011 at 2:00 p.m., or as soon thereafter as this matter may be heard in the Courtroom of the Hon. Jacqueline H. Nguyen, located at Courtroom 790, Roybal Federal Building, 255 East Temple Street, Los Angeles, CA 90012, Defendants Quest Diagnostics, Inc.; Nextgen Healthcare Information Systems, Inc.; Henry Schein Medical Systems, Inc.; Hewlett-Packard Company; Aprima Medical Software, Inc.; eClinicalWorks, LLC; MED3000, Inc.; Compulink Business Systems, Inc.; Navinet, Inc.; and athenahealth, Inc. will and hereby do move, under Fed. R. Civ. P. 21, for an Order dismissing Plaintiff Medsquire LLC's ("Medsquire") complaint against all but one Defendant.

This motion is based on this notice, the accompanying memorandum of points and authorities, and the pleadings and records on file in this action, other matters of which the Court may take judicial notice, and such matters as may be presented at the hearing on the motion.

Dated: October 24, 2011

Respectfully submitted,
MORRIS POLICH & PURDY LLP

By: /s/ Derek A. Simpson

Matthew L. Marshall

Derek A. Simpson

Attorneys for Defendant
PULSE SYSTEMS, INC.

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27	8 Chisum on Patents § 21.03[6][a], at 21-579 – 580	11

1 Defendants Quest Diagnostics, Inc.; Nextgen Healthcare Information Systems,
2 Inc.; Henry Schein Medical Systems, Inc.; Hewlett-Packard Company; Aprima
3 Medical Software, Inc.; eClinicalWorks, LLC; MED3000, Inc.; Compulink Business
4 Systems, Inc.; Navinet, Inc.; and athenahealth, Inc. (collectively, "Defendants")
5 respectfully move the Court to dismiss Plaintiff Medsquire, LLC's claims against all
6 but one Defendant. Defendants are separate companies, which make and sell separate,
7 competing products. Plaintiff has not, and indeed could not, allege claims against the
8 several Defendants that arise from the same "transaction, occurrence, or series of
9 transactions or occurrences," as required by Fed. R. Civ. P. 20(a)(2). Further,
10 Plaintiff's attempt to join the several Defendants in this action violates the explicit
11 provisions of the recently enacted America Invents Act, 35 U.S.C. § 299, which
12 makes the Federal Rules' joinder provisions explicit in patent actions. Although the
13 misjoinder provisions are not retroactive, they show the sense of Congress against
14 joining multiple, independent defendants in a single suit. Defendants cannot,
15 therefore, be joined in a single case. The proper remedy is dismissal of Plaintiff's
16 claims as to all but one defendant, under Fed. R. Civ. P. 21. (Defendants moving
17 hereby are not all of the named defendants in this case.)

18 **I. BACKGROUND**

19 Plaintiff initially filed this action in May, 2011, asserting that 14 separate,
20 unrelated parties infringed one patent: US Patent 5,682,526, entitled Method and
21 System for Flexibly Organizing, Recording, and Displaying Medical Patent Care
22 Information using Fields in a Flowsheet (the "'526 Patent"). Plaintiff alleges that the
23 '526 Patent is "directed to methods for flexibly organizing, recording, and displaying
24 medical patient care information. The invention discloses a software system that
25 enables users to customize a patient information hierarchy." Amended Complaint
26 para. 21, DI 80. Plaintiff alleged that all Defendants "infringe the '526 Patent by
27 making, using, offering to sell and selling electronic health record ("EHR") software,
28 systems, and services in the United States." Plaintiff's Statement of the Claims,

1 Amended Joint Rule 26 Report, DI 60.

2 None of the Defendants is related to any other in any organizational sense.
3 None of the Defendants' accused systems is related to that of any other Defendant,
4 and Plaintiff does not so allege. Nor does Plaintiff allege that any of the accused
5 "making, using, or selling," or any other conduct forming the basis of any other claim
6 against any Defendant, is part of any concerted activity, transaction, or occurrence
7 between or among any Defendants.

8 Because Plaintiff's complaint failed to meet the pleading requirements of Fed.
9 R. Civ. P. 12(b)(6), Defendants moved to dismiss the complaint in July. See DI 41,
10 43. At the end of August, the Court granted Defendants' motion to dismiss but gave
11 Plaintiff the opportunity to file an amended complaint. See DI 79. Plaintiff filed its
12 amended complaint in September, again alleging infringement against the same
13 group of independent Defendants based upon unrelated conduct. See DI 80.
14 Following a conference among counsel for the parties, Plaintiff agreed to dismiss
15 without prejudice its claims of indirect infringement against Defendants, and the
16 Court entered an order granting that stipulation on October 12. See Doc. 103.
17 Defense counsel also asked Plaintiff to sever the Defendants into separate actions
18 based on their misjoinder during the parties' conference, but Plaintiff refused,
19 necessitating this motion.

20 **II. PLAINTIFF'S ATTEMPT TO JOIN THE DEFENDANTS IN THIS**
21 **ACTION VIOLATES FEDERAL RULE OF CIVIL PROCEDURE 20.**

22 **A. Governing Law.**

23 Federal Rule of Civil Procedure 20 provides that joinder of multiple defendants
24 is permitted when "any right to relief is asserted against them jointly, severally, or in
25 the alternative with respect to or arising out of the same transaction, occurrence, or
26 series of transactions or occurrences; and [] any question of law or fact common to all
27 defendants will arise in the action." Fed. R. Civ. P. 20(a)(2). The Federal Circuit has
28 held that the law of the regional circuit applies to the issue of joinder in a patent case.

1 See Insituform Tech., Inc. v. CAT Contracting, Inc., 385 F.3d 1360, 1372 (Fed. Cir.
2 2004). The Ninth Circuit has recognized that Fed. R. Civ. P. 20 creates a two-pronged
3 test to be applied to questions of joinder: whether there exists a “question of law or
4 fact common to all defendants” and whether the claims against the defendants involve
5 “the same transaction, occurrence, or series of transactions or occurrences.” See
6 Coughlin v. Rogers, 130 F.3d 1348, 1350 (9th Cir. 1997). Both requirements under
7 Rule 20(a)(2) must be met; failure to meet either one will dictate dismissal or
8 severance. Id.

9 The Court need not reach the “common question” test in this case because
10 Plaintiff’s complaint plainly does not satisfy the “same transaction” test. The “same
11 transaction” requirement refers to similarity in the factual background of a claim. See
12 Id. A “common allegation . . . does not suffice to create a common transaction or
13 occurrence.” Id. Numerous district courts have applied this rule, holding that the mere
14 manufacture, sale, or operation by separate parties of similar products accused of
15 infringing identical patents is alone insufficient to join unrelated parties as defendants
16 in the same lawsuit. See, e.g., WiAV Networks, LLC v. 3Com Corp., No. C 10-03448
17 WHA, 2010 U.S. Dist. LEXIS 110957, *19 (N.D. Cal. Oct. 1, 2010); Morton Grove
18 Pharmaceuticals, Inc. v. National Pediculosis Ass’n, Inc., 525 F. Supp. 2d 1049, 1051
19 (N.D. Ill. 2007); DirecTV v. Loussaert, 218 F.R.D. 639, 642-43 (S.D. Iowa 2003).
20 Ninth Circuit precedent instructs that in cases of misjoinder, a district court may either
21 dismiss or sever the claims against the misjoined parties. See Fed. R. Civ. P. 21;
22 Coughlin, 130 F.3d at 1350.

23 **B. Plaintiff’s Misguided Attempt to Group Defendants Is Insufficient to**
24 **Support Joinder.**

25 Plaintiff evidently attempts to circumvent the requirements of Federal Rule
26 20(a)(2) by alleging that the accused systems of all Defendants are certified to comply
27 with federal guidelines regarding electronic health records software (“ONC
28 Certification”), and that any system that is so certified necessarily infringes its

1 asserted claims:

2 In July 2010, the Office of the National Coordinator (ONC) of
3 the U.S. Department of Health and Human Services (HHS)
4 issued a Final Rule to qualify EHR technology for the
5 American Recovery and Reinvestment Act (ARRA). Rules
6 governing ONC certification are published at 45 C.F.R. Part
7 170. Vendors who wish to claim ONC certification must be
8 have their software tested to demonstrate conformity to all
9 certification criteria adopted at 45 CFR Part 170, Subpart C.
10 Each Defendant's EHR software has been tested and certified
11 as ONC compliant. Medsquire contends that an EHR vendor
must necessarily practice the claims in the '526 Patent to
comply with the ONC certification requirements. For this
reason, among others, Medsquire believes that each Defendant
infringes one or more claims of the '526 Patent.

12 Plaintiff's Statement of the Case, Amended Joint Statement DI 60. See also, Amended
13 Complaint, paras. 30-32, DI 80 ("In other words, EHR software and systems cannot
14 receive ONC-ATCB certification under the published rules without also infringing
15 one or more claims of the '526 patent.").

16 Such attenuated "grouping" of parties based on the fact that they have
17 independently chosen to make similar business decisions, does not satisfy the
18 requirements for joinder of parties under the Rule 20(a)(2) "transaction or
19 occurrence" prong. See, e.g., WiAV Networks, LLC v. 3Com Corp., 2010 U.S. Dist.
20 LEXIS 110957 *17 (N.D. Cal. Oct. 1, 2010). That standard looks to commonality of
21 accused conduct or activity. The weight of Ninth Circuit district court decisions is in
22 clear support of this rule. See, e.g., Nazomi Comm. Inc. v. Samsung Telecomm. Am.,
23 LLC, CV 10-05545-WHA (N.D. Cal. Sept. 28, 2011) (finding no "common
24 transaction or occurrence" where the defendants were not alleged to have acted in
25 concert); Optimum Power Sol'ns. LLC v. Apple, Inc., CV 11-1509-SI (N.D. Cal.
26 Sept. 20, 2011) (finding that while the defendants were alleged to infringe the patent-
27 in-suit in similar ways, that did not constitute a "transaction or occurrence"); Piao
28

1 Shang Ind. Co. Ltd., v. Acco Brands Corp, CV 11-2639-PA (C.D. Cal. July 19, 2011)
2 (finding that where there was no connection between three of the parties where they
3 merely manufactured similar products); EIT Holdings LLP v. Yelp!, Inc., 2011 U.S.
4 Dist. LEXIS 64034 *4-5 (N.D. Cal. May 12, 2011); Joao Control & Monitoring Sys.
5 of Cal. v. Acti Corp. Inc., CV 10-01909-DOC (C.D. Cal. Apr. 13, 2011) (finding no
6 “common transaction” where the defendants did not act in concert); Olympic
7 Development AG, LLC v. Microsoft Corp., CV 10-8874-GWA, Doc. 60 (C.D. Cal.
8 Feb. 3, 2011) (finding that the “common transaction” test was not met when
9 Defendants separately infringed the same product); IO Group, Inc. v. Does 1-435,
10 2011 U.S. Dist. LEXIS 14123 (N.D. Cal. Feb. 3, 2011); Sorensen v. DMS Holdings,
11 2010 U.S. Dist. LEXIS 124516 *1-2, 3 (S.D. Cal. Nov. 24, 2010) (“[A]lleging a
12 common manufacturer and infringement of the same patent is not enough to support
13 joinder where defendants are unrelated companies, selling different products.”);
14 Golden Scorpio Corp. v. Steel Horse Bar & Grill, 596 F. Supp. 2d 1282, 1285 (D.
15 Ariz. 2009) (“[A]llegations against multiple and unrelated defendants for acts of
16 patent, trademark, and copyright infringement do not support joinder under Rule
17 20(a).”).

18 Many other district courts have reached the same conclusion. See, e.g., Spread
19 Spectrum Screening, LLC v. Eastman Kodak Co., 2010 U.S. Dist. LEXIS 90549 *6
20 (N.D. Ill. Sept. 1, 2010) (“joinder is often improper where two competing businesses
21 have allegedly infringed the same patent by selling different products”); Androphy v.
22 Smith & Nephew, Inc., 31 F. Supp.2d 620 (N.D. Ill. 1998) (joining manufacturers of
23 separate companies who independently made separate products accused of infringing
24 the same patent was improper); New Jersey Mach. Inc. v. Alford Ind. Inc., 1991 U.S.
25 Dist. LEXIS 20376 *4, 5 (D.N.J. 1991) (“[i]nfringement of the same patent by
26 different machines and parties does not constitute the same transaction or occurrence
27 to justify joinder of the new defendants.”); Multi-Tech Sys. v. Net2Phone, Inc., 2000
28 U.S. Dist. LEXIS 22683 (D. Minn. 2000) (“In the patent infringement context, courts

1 sever defendants that are ‘separate companies that independently design, manufacture
2 and sell different products in competition with each other.’”); Philips Elecs. N. Am.
3 Corp. v. Contec Corp., 220 F.R.D. 415, 416 (D. Del. 2004) (“Allegations of
4 infringement against two unrelated parties based on different acts do not arise from
5 the same transaction.”); Paine, Webber, Jackson & Curtis, Inc. v. Merrill Lynch,
6 Pierce, Fenner & Smith, Inc., 564 F. Supp. 1358, 1370-71 (D. Del. 1983)
7 (“Allegations of infringement against two unrelated parties based on different acts do
8 not arise from the same transaction.”); Pergo, Inv. v. Alloc, Inc., 262 F. Supp. 2d 122,
9 128 (S.D.N.Y. 2003) (“[T]he fact that two parties may manufacture or sell similar
10 products, and that these sales or production may have infringed the identical patent
11 owned by the plaintiffs is not sufficient to join unrelated parties as defendants in the
12 same lawsuit pursuant to Rule 20(a)”); Siemens Aktiengesellschaft v. Sonotone Corp.,
13 370 F. Supp. 970, 974 (N.D. Ill. 1973) (“[C]laims of infringement against unrelated
14 defendants involving different acts should be tried against each defendant
15 separately.”); see also 8 Chisum on Patents § 21.03[6][a], at 21-579 – 580 (stating that
16 the “same transaction” test “will not be met when . . . the only basis for joinder is that
17 [the alleged infringers] are engaged in similar acts of infringement.”).

18 The principle upon which all of these cases agree is that multiple defendants
19 who make and sell separate products are engaged in separate transactions and
20 occurrences and therefore cannot, without more, be joined in the same action under
21 Federal Rule 20(a)(2). Although Defendants, as active participants in the field of
22 electronic health records, have independently taken steps to have their products
23 certified as compliant with federal guidelines, Plaintiff nonetheless does not and
24 cannot allege any common transaction or occurrence. The “connection” asserted by
25 Plaintiff would represent a complete evisceration of the requirements of the Federal
26 Rules’ joinder requirements, conceivably allowing parties to be joined merely if their
27 products were certified by any number of the dozens of state, federal, and private
28 rating and certifying bodies active in various industry spaces.

1 The Northern District WiAV Networks case is instructive in this regard. WiAV
2 Networks, 2010 U.S. Dist. LEXIS 110957. In that case, the court considered and
3 rejected an argument closely related to the one apparently previewed in this case by
4 Medsquire. Plaintiff WiAV accused 68 defendants of infringing two patents. Id. at
5 *13. As in the present case, the named defendants in WiAV were generally unrelated
6 market participants. Id. Also, like the present case, WiAV did not allege that the
7 defendants had acted in concert to infringe the asserted patents, and in fact, as here,
8 many of the defendants were competitors. Id. WiAV argued that certain defendants
9 should be grouped in a single action because the claims against them were “logically
10 connected,” and therefore such grouping would serve the interests of judicial
11 efficiency. Id.

12 The court held that the manufacture and sale of competing products by
13 competitors does not create a common transaction or occurrence, simply because a
14 plaintiff alleges that such products are similar and infringe the same patent in similar
15 ways. Id. at *19-20. Notably, the WiAV court decided that even in cases where the
16 defendants’ alleged infringement purportedly arises from a common industry
17 standard, proof of infringement must be made on an individualized basis. Id. at *16.
18 As the decision in WiAV illustrates, an allegation that accused products or parties are
19 somehow “logically connected” does not necessarily mean that claims arise out of the
20 same transaction or occurrence, as required by Federal Rule 20(a)(2). In the same
21 way, in the present case, the fact that each named Defendant may be certified under
22 the same federal guidelines is insufficient to support joinder.

23 **III. ALLOWING PLAINTIFF TO JOIN THE ACCUSED DEFENDANTS IN**
24 **ONE ACTION WOULD UNFAIRLY PREJUDICE THE DEFENDANTS.**

25 In order to prove infringement, Medsquire must prove facts specific to each
26 defendant, and each accused system, meeting all the elements of the asserted claim. In
27 the present case, each Defendants’ accused product is different from the others. As a
28 result, if this case were to proceed as captioned, Plaintiff’s case against each

1 Defendant will require a dedicated set of infringement contentions, each directed to a
2 separate system operating in a different way. Additionally, any damages and
3 willfulness cases will necessarily vary considerably. Indeed, all aspects of Plaintiff's
4 case will need to be individualized, as each accused system is used by different users,
5 purchased by different customers, for different prices, at different times, etc.
6 Similarly, each Defendant's non-infringement case would be substantially different,
7 the parallel presentation of which may be considerably complicated due to the
8 likelihood that the several Defendants, competitors in industry, may have different
9 defense strategies motivated by differing business and litigation concerns.

10 This scenario would make a manageable and fair trial as to any one Defendant
11 difficult at best, and, at worst, would introduce a significant danger of prejudicial
12 confusion by the fact-finder. See Philips, 220 F.R.D. at 418 (trying the parties
13 together would cause a substantial risk of prejudice to one party were the jury to
14 believe that the parties were linked.). Instead, each Defendant's right to fairly present
15 its own defense should be guarded. Each defendant is entitled to present its own
16 defense to the claim that its products infringe a patent. WiAV at *16. ("[T]he accused
17 defendants – who will surely have competing interests and strategies – are also
18 entitled to present their own individualized assaults on questions of non-infringement,
19 invalidity, and claim construction.") This right would be forfeited if they are all
20 "thrown into a mass pit with others to suit plaintiff's convenience." Id. Underlying the
21 decision in WiAV Networks was the right of the defendants to present "individualized
22 assaults on question of non-infringement, invalidity and claim construction" and the
23 fact that infringement issues, damages issues, willfulness issues, time frames, accused
24 conduct, and discovery issues would likely vary from company to company. Id. at
25 *16. In the present case, dismissing Plaintiff's claims against all moving Defendants
26 will further the interests of justice by avoiding the prejudice and confusion that may
27 result from litigating claims against unrelated defendants in the same action.
28

1 **IV. THE AMERICA INVENTS ACT SPECIFICALLY PROHIBITS THE**
2 **JOINDER OF THE SEVERAL DEFENDANTS IN ONE ACTION.**

3 On September 16, President Obama signed the America Invents Act into law,
4 which legislation includes a provision explicitly prohibiting Plaintiff from joining all
5 the named Defendants in one action. The new 35 U.S.C. § 299 makes the permissive
6 joinder provisions of Rule 20 explicit with respect to patent cases:

7 [P]arties that are accused infringers may be joined in one action
8 as defendants or counterclaim defendants, or have their actions
9 consolidated for trial, or counterclaim defendants only if (1) any
10 right to relief is asserted against the parties jointly, severally, or
11 in the alternative with respect to or arising out of the same
12 transaction, occurrence, or series of transactions or occurrences
relating to the making, using, importing into the United States,
offering for sale, or selling of the same accused product or
process; and (2) questions of fact common to all defendants or
counterclaim defendants will arise in the action.

13 35 U.S.C. § 299(a). Additionally, the new statutory provision underscores
14 the existing Rule 20 rule in providing an explicit proscriptive statement:

15 For purposes of this subsection, accused infringers may not be
16 joined in one action as defendants or counterclaim defendants,
17 or have their actions consolidated for trial, based solely on
18 allegations that they each have infringed the patent or patents in
suit.

19 35 U.S.C. § 299(b). Thus, the clear congressional intent is that patent defendants not
20 be joined merely based on an allegation of infringement of the same patent.

21 This new code provision became effective on September 16th, the day that the
22 America Invents Act was signed into law by the President, see 35 U.S.C. § 299(e),
23 and applies to all actions “commenced” after such date. Plaintiff filed its First
24 Amended Complaint on September 23. According to General Order 10-07, a First
25 Amended Complaint is an “initiating document.”¹ As a result, the present action was
26

27 ¹ Plaintiff failed to follow the proper procedure required for filing a “case initiating”
28 document. See DI 81, Notice of Deficiency. A First Amended Complaint must be
filed in the traditional manner rather than electronically. See G.O. 10-07, V. C.

1 commenced after the effective date of the new statutory joinder provision, and must
2 comply therewith. Plainly, Plaintiff's complaint does not comply with the
3 requirements of the Patent Act, and must be dismissed.

4 **V. DISMISSAL OF ALL BUT ONE DEFENDANT IS THE PROPER**
5 **REMEDY.**

6 Once the Court concludes that misjoinder exists, it may dismiss without
7 prejudice all the misjoined parties, so long as no substantial right will be prejudiced.
8 Coughlin v. Rogers, 130 F.3d at 1350. Medsquire can offer no reason as to how or
9 why it would be prejudiced in this action should the Court dismiss all misjoined
10 Defendants. Since "[e]ach claim raises potentially different issues, and must be
11 viewed in a separate and individual light by the Court," the interests of judicial
12 economy and fairness demand dismissal of all improperly joined Defendants. Id. at
13 1351.

14 **VI. CONCLUSION**

15 Plaintiff's allegations against the several Defendants are insufficient to meet the
16 standard required for joinder under Federal Rule of Civil Procedure 20(a). Plaintiff
17 merely alleges that each Defendant infringes the same patent. Plaintiff does not allege
18 that Defendants' infringement involved the "same transaction, occurrence or series of
19 transactions or occurrences." Fed. R. Civ. P. 20(a)(2). Plaintiff has not alleged that
20 Defendants acted in concert or otherwise controlled or directed each other's conduct.
21 Further, Plaintiff's attempt to join the several Defendants in this action violates the
22 provisions of the new 35 U.S.C. § 299, which makes Rule 20's joinder provisions
23 explicit in patent actions.

24 Plaintiff's pleading strategy therefore represents a classic case of misjoinder. In
25 situations of misjoinder of parties, Fed. R. Civ. P. 21 provides that "[o]n motion or on
26 its own, the court may at any time, on just terms, add or drop a party." Defendants
27

28 Defendants are not aware that Plaintiff has taken any steps to remedy this deficiency.

1 therefore respectfully request that the Court dismiss Plaintiff's complaint against all
2 but one Defendant.

3
4 DATED: October 24, 2011

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